

Message Text

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PAGE 01 JAKART 05304 020807Z

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ACTION EB-11

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FM AMEMBASSY JAKARTA

TO SEFSTATE WASHDC 2067

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

AMEMBASSY TOKYO

UNCLAS JAKARTA 5304

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 053993

1. INDONESIA'S SECOND FIVE-YEAR PLAN CALLS FOR A CONTINUED LARGE ROLE BY PRIVATE FOREIGN INVESTORS. FOREIGN INVESTMENT IS TO SUPPLEMENT WHERE DOMESTIC INVESTMENT IS STILL INADEQUATE.

2. THE CONSTITUTION AND LAWS VEST SUB-SOIL RESOURCE OWNERSHIP IN THE STATE AND LIMIT FOREIGN ACTIVITIES IN OIL AND MINING TO CONTRACTS OF WORK OR PRODUCTION SHARING. THE FOREIGN AND DOMESTIC INVESTMENT LAWS OF 1967 AND 1968 ESTABLISH PROCEDURES AND INCENTIVES IN ALL UNCLASSIFIED

UNCLASSIFIED

PAGE 02 JAKART 05304 020807Z

OTHER SECTORS. INDONESIA PROVIDES GENERALLY ATTRACTIVE

INVESTMENT INCENTIVES BUT DOES NOT YET HAVE PROGRAM TO PROMOTE AND FACILITATE PRIVATE INVESTMENTS FOUND IN OTHER SEA COUNTRIES. PROJECT APPROVAL AND IMPLEMENTATION PROCEDURES ARE SLOW AND CUMBERSOME. (SEE RECENT DEVELOPMENTS).

3. GENERAL ECONOMIC POLICIES ARE FAVORABLE TO INVESTMENT. INDONESIA HAS NO FOREIGN EXCHANGE RESTRICTIONS AND MINIMAL TRADE LIMITATIONS. IT REQUIRES NEITHER IMPORT NOR EXPORT LICENSES. INDONESIA HAS ACHIEVED MODERATE ECONOMIC GROWTH, DRAMATIC EXPORT AND FOREIGN EXCHANGE GAINS (ESPECIALLY OIL), IMPRESSIVE ECONOMIC AID AND FOREIGN AND DOMESTIC INVESTMENT LEVELS AND REASONABLE PRICE STABILITY (UNTIL 1972/73 WHEN INFLATION EXCEEDED 25 PERCENT).

4. TAX AND OTHER INCENTIVES FAVOR MAINLY LABOR-INTENSIVE, EXPORT-ORIENTED, AND DOMESTIC RESOURCE-PROCESSING INDUSTRIES AS WELL AS LOCATION OUTSIDE JAKARTA AND WEST JAVA. SPECIAL REQUIREMENTS APPLY TO LOCAL PROCUREMENT ONLY IN UNUSUAL CASES SUCH AS VEHICLE MANUFACTURING.

5. MOST INVESTMENT AGREEMENTS CALL INITIALLY FOR 10 TO 20 PERCENT LOCAL PARTICIPATION, TO INCREASE TO 25-40 PERCENT WITHIN 10-20 YEARS. PRESIDENT SUHARTO ON JANUARY 22, 1974, CALLED FOR ACCELERATED LOCAL PARTICIPATION AND ULTIMATE MAJORITY OWNERSHIP OF ALL BUSINESSES BY ETHNIC INDONESIANS. GOVERNMENT ENTERPRISES PLAY A GROWING ROLE. THE GOVERNMENT IS EXPANDING STATE EQUITY IN UPSTREAM PROCESSING OF BASIC RESOURCES, BUT PERMITTING JOINT STATE/FOREIGN VENTURES AND FOREIGN EQUITY IN SEMI-FINISHED AND FINISHED PRODUCTION AND EXPORT.

6. THE U.S. IS INDONESIA'S LARGEST FOREIGN INVESTOR, WITH ABOUT \$1.7 BILLION INVESTED, INCLUDING OIL AND MINING. EXCLUDING THESE APPROVED U.S. INVESTMENT OF \$480 MILLION IS SECOND TO JAPAN (\$803 MILLION) BUT AHEAD OF HONG KONG (\$313 MILLION). THROUGH 1973, OPIC CONVERGED 66 INVESTMENTS FOR \$185 MILLION; 64 APPLICATIONS FOR \$776 MILLION ARE PENDING. USG/GOI HAVE REACHED UNCLASSIFIED

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PAGE 03 JAKARTA 05304 020807Z

AGREEMENT ON MOST PROVISIONS OF A DOUBLE TAX TREATY.

7. RECENT DEVELOPMENTS. IN 1974, TO RESPOND MORE EFFECTIVELY TO DOMESTIC BUSINESS INTERESTS, THE GOVERNMENT INTRODUCED NUMEROUS MEASURES TO ENCOURAGE GREATER PARTICIPATION BY ETHNIC INDONESIANS, TO ACCELERATE INDONESIANIZATION OF STAFFING AT ALL LEVELS IN FOREIGN INVESTMENT PROJECTS, AND TO INCREASE INDONESIA'S

SHARE OF RESOURCE INVESTMENT RETURNS. THESE HAVE BEEN UNSETTLING TO FOREIGN INVESTORS. DIFFICULTIES OF DOING BUSINESS HAVE ALSO INCREASED APPRECIABLY -- BUREAUCRATICALLY, IN TERMS OF PORT CONGESTION, AND IN RAPID PROJECT COST INFLATION.

8. OBSERVERS EXPECT PROLONGED UNCERTAINTY, AS RESULT OF FACTORS NOTED ABOVE, FOLLOWED BY GRADUAL REASSERTION OF INDONESIA'S PRAGMATIC INTEREST IN ATTRACTING FOREIGN INVESTMENT. OVER TIME, FLEXIBILITY IN APPLICATION OF THE MAJORITY OWNERSHIP AND OTHER LIMITATIONS IS EXPECTED IN INVESTMENT SECTORS HAVING HIGH GOVERNMENT PRIORITY.
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